

1 Q. Further to response to Request for Information PUB-NLH-064:

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3 Hydro indicated that “There is no calculation underlying the productivity allowance
4 for 2018 and 2019...” and that it is a “...self-imposed target set by Hydro’s Executive
5 to reflect actions being taken to manage costs.”

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7 Table 3-17 of Hydro’s revised evidence indicates operating costs will increase by
8 over \$10 million, or over 8%, in 2017 and by a further
9 \$8 million, or approximately 6%, in 2018.

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11 Please indicate, with specific examples, how these annual operating cost increases,
12 in Hydro’s Executives’ view, “...reflect actions being taken to manage costs.”

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14

15 A. 2016 costs reflect the actions of management to reduce costs. As outlined in
16 Hydro’s response to PUB-NLH-054, not all of the cost decreases were sustainable.
17 With regards to the increase in costs from the 2017 Forecast to the 2018 Test Year,
18 the primary drivers are outlined in Table 1. The cost increases noted are a function
19 of variations in activity in the business year over year and have been partially
20 mitigated by management’s continued actions to manage costs and gain
21 efficiencies.

Table 1 2018 Test Year vs 2017 Forecast Variance

	\$ millions
Information and Operations Technology	1.5
Business Systems Fee	1.5
Capitalized costs	1.2
Salary increases	0.8
Overtime	0.7
Benefits	0.6
System Equipment and Maintenance	0.5
Insurance	0.3
Travel	0.3
Transportation	0.2
Other	0.3
Total Variance	8.0

1 Information and Operations Technology

- 2 • Cost increases associated with Information and Operations Technology are
 3 outlined in in Hydro’s responses to NP-NLH-176 through to NP-NLH-180.

4
 5 Business Systems Fee

- 6 • Hydro’s forecast includes costs related to the Business System Transformation
 7 Program as outlined in Hydro’s responses to NP-NLH-036 and NP-NLH-037.

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 9 Capitalized Costs

- 10 • Levels of capitalized costs vary from year to year based on work plans and
 11 activities for the year.

12
 13 Salaries

- 14 • Salary increases include economic adjustments, merit, and progression. As
 15 outlined in Hydro’s response to PUB-NLH-033 lines 15-17, Hydro is reducing
 16 FTEs in the 2018 and 2019 Test Years. Hydro’s approach to managing FTEs is

1 outlined in Hydro’s responses to PUB-NLH-054 and PUB-NLH-122 and the
2 approach to compensation is outlined in Hydro’s response to PUB-NLH-056.

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4 Overtime

- 5 • Levels of overtime vary from year to year. For additional information on
6 overtime, please refer to Hydro’s response to CA-NLH-141.

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8 Benefits

- 9 • Benefits include employee future benefits, which are determined using actuarial
10 projections, and fringe and group insurance which are a function of salary costs.

11

12 System Equipment and Maintenance (SEM)

- 13 • SEM costs include contract labor and materials associated with preventative and
14 corrective maintenance practices.

15

16 Insurance

- 17 • Insurance cost increases are driven by including external factors as outlined in
18 Hydro’s responses to NP-NLH-070 and IC-NLH-153.

19

20 Travel

- 21 • The requirements for increases in travel costs are outlined in Hydro’s responses
22 to PUB-NLH-054 and NP-NLH-068.

23

24 Transportation

- 25 • Costs in this category include vehicle fuel and are forecast using projected prices
26 and volumes which can vary from year to year based on operational plans.

- 1 Many of the items noted above are influenced by a variety of factors other than
- 2 management actions. The actions taken by management are outlined in Hydro's
- 3 response to PUB-NLH-122.